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*Credit Union  
Deposit Guarantee  
Corporation*

Alberta

1995 ANNUAL REPORT





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## Deposit Guarantee Statement

*The Credit Union Deposit Guarantee Corporation guarantees the repayment of all deposits with Alberta credit unions, including accrued interest. Additionally, the Credit Union Act provides that the Government of Alberta will ensure that this obligation of the Corporation is carried out.*



For more information contact:

Credit Union Deposit Guarantee Corporation  
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Edmonton, Alberta T5J 3S4  
Phone (403) 428-6680  
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## *Our Vision*

*Financially strong and stable Alberta credit unions  
with cost effective protection for depositors.*

## *Our Mission*

*To ensure sound business practices in Alberta credit unions  
and guarantee deposits according to legislation.*

## *Our Primary Role*

- ➔ *To provide a 100% guarantee of deposits held with Alberta credit unions.*
- ➔ *To assist, advise, and, where necessary, direct credit unions to ensure sound business practices are maintained.*
- ➔ *To monitor and regulate credit union performance and act quickly to improve credit union results and minimize risk to the credit union system and the Corporation.*

## Our Goals

*The core results we intend to deliver and the related goals, are:*

1. *An effective system to ensure sound business practices are implemented and maintained in Alberta credit unions.*
  - ➔ Develop and implement an approach for evaluating adherence to the Sound Business Practices Handbook.
2. *Effective systems to ensure concerns relating to credit unions are promptly identified and addressed.*
  - ➔ Conduct examinations or reviews in credit unions as planned in annual budget and ensure major concerns are addressed.
  - ➔ Ensure credit union compliance with governing legislation.
3. *A framework for increasing the autonomy of credit unions.*
  - ➔ Review semi-annually the lending limits and reportable limits.
  - ➔ Review annually if any credit unions qualify for reduced supervision or release from supervision.
4. *Self-sufficiency with respect to the 100% deposit guarantee.*
  - ➔ Assess capital positions of credit unions to ensure capital adequacy requirements met by 1999.
  - ➔ Maintain equity in the Deposit Guarantee Fund of at least 1% of credit union assets.
5. *Operate efficiently and effectively in achieving core results.*
  - ➔ Identify and implement changes which improve the Corporation's processes.



## Chairman's Report

Last year I reported on important initiatives and changes that are now a part of the credit union system in Alberta, as follows: credit unions may issue investment shares; capital adequacy requirements have a risk-weighted component; the deposit guarantee assessment rate was reduced from 25 to 19 basis points (subject to annual review); the rate for redemption of the deficit financing assistance was reduced from 65% to 25% until 1999; and then it increases to 50%.

These changes have ongoing relevance in terms of our accomplishments for the year and plans for 1996.

### Achievements for 1995

Favourable results for credit unions during 1995 enabled us to make further progress towards our long-term goals. Achievements for the year include:

- ▶ increasing the delegated approval limits to Corporation management for credit union loans;
- ▶ reviewing the mandate of the Special Loans Committee;
- ▶ revising portions of the Corporation's Lending Policies and Guidelines;
- ▶ maintaining the deposit guarantee assessment rate at 19 basis points;
- ▶ reviewing all credit union capital adequacy positions;
- ▶ adding the evaluation of sound business practices to the examination process; and
- ▶ reducing total administration expenses.

Stable credit union earnings, ongoing evaluations of sound business practices, improving capital levels, and an adequate Deposit Guarantee Fund, enable us to meet our goals and the challenges ahead.

### Loan Approvals

One of our long-term goals involves increasing the autonomy of credit unions. With the evolution of the credit union systems' loan portfolio over the last decade, a reevaluation of the Corporation's loan

approval process was appropriate. This review was timely in light of certain recommendations of the Commercial & Agricultural Lending Task Force. Our review resulted in:

- ▶ significant increases in the maximum lending limits for credit unions and higher delegated approval limits for Corporation management;
- ▶ expanded criteria for requesting an increased lending limit to include capital position and financial performance;
- ▶ increased lending limits for credit unions meeting the new criteria and fewer loan applications being submitted for Corporation approval;
- ▶ a change in the mandate of the Special Loans Committee to mainly a monitoring role, and a reduction in the frequency of meetings.



Elvin Christenson, FCA  
Chairman of the Corporation

### Deposit Guarantee

The first level of deposit protection is credit union capital, which totalled \$169 million at October 31, 1995 (a 17% increase from 1994). The capital adequacy requirement is the greater of 4% of total assets

excluding S C Financial Ltd. debentures (the "adjusted assets test") and 8% of risk-weighted assets (the "risk-weighted test"). Credit union system assets reached \$4.1 billion at October 31, 1995 (a 7% increase from 1994). While both tests are met on a total credit union system basis, the requirement must be met by each credit union. We reviewed capital adequacy positions and can report that 62 credit unions currently meet both tests. While the remaining 25 credit unions are progressing, they will need a concerted effort to improve financial margins and reduce operating costs to ensure they meet these tests by 1999.

The Deposit Guarantee Fund, the second level of deposit protection, reached \$45.3 million or 1.11% of total credit union assets. A recommended minimum equity level for the fund is 1% of total credit union assets, provided all credit unions have achieved the required capital levels. To be prudent, our objective is to maintain the fund at slightly above the 1%

## Chairman's Report

minimum until all credit unions meet the capital requirements. In addition, this approach allows flexibility to maintain the targeted percentage during periods of higher credit union asset growth.

### Sound Business Practices

One of our main priorities was to develop an approach for evaluating sound business practices in credit unions and include it in our examination programs. We are very close to completing this objective.

### Strategies for 1996

To progress towards our long-term goals, our strategies for 1996 include:

- ▶ completing and distributing the revised Corporation Lending Policies and Guidelines;

- ▶ developing self-assessment questionnaires on sound business practices;
- ▶ developing a risk-rating system to determine examination priorities;
- ▶ maintaining the size of the Deposit Guarantee Fund; and
- ▶ performing our functions within our annual budget.

I would like to recognize the commitment and efforts of all employees at the Corporation over the past year. These individuals play a key role in ensuring that corporate goals are achieved and are to be commended. Thanks are also extended to my fellow board members for their contributions and dedication in carrying out their responsibilities throughout the year.

Elvin Christenson, FCA  
Chairman of the Corporation

## Board of Directors and Committees

The Corporation is administered by a Board of Directors appointed by the Lieutenant Governor in Council of the Province of Alberta.

*Elvin Christenson*, Chairman of the Corporation <sup>1,2,3</sup>  
A retired partner of KPMG, Chartered Accountants, Edmonton, Alberta

*Sanford Fitch*, Vice Chairman <sup>1,2</sup>  
A retired lawyer of the firm Cormie Kennedy, Edmonton, Alberta

*Bob Campbell* <sup>3</sup>  
The nominated representative from the credit union system and a former General Manager of Parkland Savings and Credit Union Ltd., Red Deer, Alberta

*Michael Evans* <sup>1,2</sup>  
President of Opus Development Limited, Calgary, Alberta

*David Hancock* <sup>5</sup>  
Partner with the law firm of Matheson & Company, Edmonton, Alberta

*Allister McPherson* <sup>1,2</sup>  
Deputy Provincial Treasurer - Finance and Revenue of the Province of Alberta, Edmonton, Alberta

*Bob Parkyn* <sup>4</sup>  
A retired partner of Young, Parkyn, McNab, Chartered Accountants, Lethbridge, Alberta

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<sup>1</sup> Audit Committee Member

<sup>2</sup> Finance Committee Member

<sup>3</sup> Special Loans Committee Member

<sup>4</sup> Chairman, Audit and Finance Committees

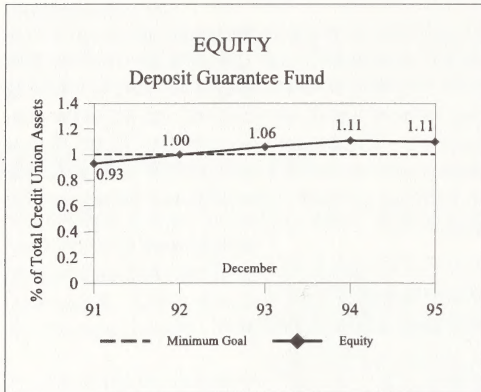
<sup>5</sup> Chairman, Special Loans Committee



# Management's Report

## Financial Results

Equity in the Deposit Guarantee Fund reached \$45.3 million or 1.11% of total credit union assets as at December 31, 1995 (1994: \$42.9 million or 1.11%). We maintained the equity level as a percentage of total credit union assets.



The Corporation's main sources of revenue are deposit guarantee assessments from credit unions and interest earned on investments.

Deposit guarantee assessments levied on credit unions equal 19 basis points on total deposits and borrowings, down from 25 basis points prior to November 1, 1994. The lower rate resulted in a significant reduction in deposit guarantee assessments of \$1.4 million (from \$8.7 million in 1994 to \$7.3 million in 1995).

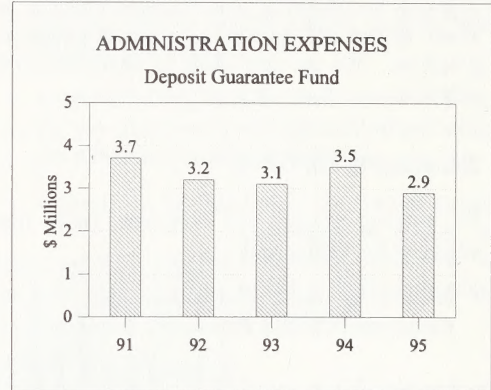
Higher than anticipated interest rates in 1995 caused interest revenue to exceed the budgeted amount for the year.

The Corporation monitors the financial condition of all credit unions in the province and provides financial assistance, when required. Most of the \$1,351,000 in financial assistance relates to an accrual established for aggregate risk in the credit union system, net of recoveries of \$188,000.

We exceeded our budgeted net income figure by \$435,000 for the Deposit Guarantee Fund and \$236,000 for the Master Bond Fund. The higher net

income for the Deposit Guarantee Fund resulted mainly from:

- higher interest and deposit assessment revenues that were offset by the higher financial assistance and special contribution expenses, and
- lower administration expenses.



Lower than expected Master Bond claims, unanticipated recoveries on these claims and higher interest revenue resulted in the improved net income for the Master Bond Fund.

## Sound Business Practices

During the year, we developed an approach for evaluating credit union adherence to sound business practices. Incorporating the evaluation of sound business practices into our examination programs will be completed in early 1996. This will help to determine the extent of compliance with sound business practices on an ongoing basis. To make the process more efficient, we will develop self-assessment questionnaires for credit unions to complete.

## Supervision and Monitoring

Credit unions may be under the supervision of the Corporation for a variety of reasons. Some reasons in the Credit Union Act include concerns relating to financial performance and business practices, or outstanding Stabilization Preferred Shares.



## Management's Report

Supervised credit unions provide the Corporation with their annual budgets for approval and comply with additional reporting or approval conditions. We provide advice and direction to them to ensure they address any concerns. The following chart shows the changes in the number of credit unions under supervision.

NUMBER OF CREDIT UNIONS UNDER SUPERVISION  
as at October 31

|                           | <u>1995</u> | <u>1994</u> |
|---------------------------|-------------|-------------|
| Beginning of year         | 25          | 30          |
| Additions                 | 1           | 1           |
| Releases                  | (1)         | (4)         |
| Buy/sell or amalgamations | (1)         | (2)         |
| End of year               | <u>24</u>   | <u>25</u>   |

The financial results for the 24 supervised credit unions were positive again this year, with only one credit union reporting a minor loss. Overall, the supervised credit unions reported net income after patronage and taxes of \$8.3 million (1994 - \$8.1 million).

The examination of credit unions continued in 1995. While fewer credit unions were examined, the number of branch locations reviewed was higher than last year. We provided all credit unions with a clarification of the examination mandate and a summary of our findings for 1995. By the middle of 1996, we expect to have completed an on-site examination of every credit union in the province. After that, we will schedule examinations based on the risk-rating system under development.

With the new capital adequacy legislation introduced late in 1994, we reviewed all of the capital adequacy positions of credit unions. We requested new plans from some credit unions that show how they will achieve the adjusted assets and risk-weighted tests by October 31, 1999. Our process includes a review and approval of these new plans, and ongoing quarterly reviews of all credit union capital positions.

We maintain the financial and statistical database for the credit union system, and provide electronic copies

to Alberta Treasury and Credit Union Central Alberta Limited. The changes to the monthly Financial and Statistical Report form required a major redesign of the database system. The changes expand the information we receive relating to risk-weighted assets, impaired loans and off-balance sheet items. This improves the reporting capabilities of the database system and our monitoring processes.

### Loan Approvals

The Corporation is responsible for the approval of loans over the limits established for each credit union. During 1995, we undertook a major initiative to increase approval levels assigned to Corporation staff and senior management. This streamlines the approval process, allowing faster turnaround time on loan applications. The responsibility for loan approvals now rests mainly with management. The Special Loans Committee has assumed more of a monitoring role.

We conduct a semi-annual review of lending limits assigned to each credit union. The expanded criteria includes consideration of the credit union's capital position and financial performance. This resulted in an increase in some lending limits due to favourable financial positions and a reduction in the number of loan applications received by the Corporation.

The table below shows the number of loan applications (including reportable applications) received and declined for the last two years.

|                                 | <u>1995</u> | <u>1994</u> |
|---------------------------------|-------------|-------------|
| Number of applications          | 3,016       | 3,481       |
| Number of declined applications | 78*         | 122*        |
| Percentage declined             | 2.6%*       | 3.5%*       |

\* Originally 110 [3.6%] (1994: 166 [4.8%]) were declined, but 32 (1994: 44) were subsequently approved at full or reduced amount, with some changes in terms and conditions.

A review of the Corporation's Lending Policies and Guidelines is well underway with input from the credit union system. We expect to complete the review early in 1996.

## Management's Responsibility

The management of the Credit Union Deposit Guarantee Corporation prepared these financial statements and is responsible for their reliability, completeness and integrity. They conform in all material respects to generally accepted accounting principles.

Management maintains the necessary accounting and internal control systems designed to ensure: the timely production of reliable and accurate financial information, the protection of assets (to a reasonable extent) against loss or unauthorized use, and the promotion of operational efficiency. The Audit Committee has implemented a plan to review internal controls as deemed appropriate for the Corporation. The Board of Directors

acting through its Audit Committee, oversees management's responsibilities for the financial reporting and internal control systems.

The financial statements have been reviewed by the Audit Committee and have been approved by the Board of Directors. In addition, the financial statements have been examined by the Auditor General, whose report is included hereafter.

J. Laitner  
Chief Executive Officer

E. Friedrich  
Chief Financial Officer

March 7, 1996

## Auditor's Report

To the Directors of the  
Credit Union Deposit Guarantee Corporation

I have audited the balance sheet of the Credit Union Deposit Guarantee Corporation as at December 31, 1995 and the statements of income and equity and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1995 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.



FCA  
Auditor General

Edmonton, Alberta  
March 7, 1996



# Balance Sheet

December 31, 1995 (in \$000's)

|   | 1995             | 1994             |
|---|------------------|------------------|
| <b><u>ASSETS</u></b>  |                  |                  |
| Cash  | \$ 1,566         | \$ 223           |
| Investments (Note 3)  | 53,483           | 50,759           |
| Accrued interest receivable                                     | 1,552            | 1,322            |
| Due from credit unions  | 1,525            | 1,388            |
| Loans receivable  | 747              | 975              |
| Other assets  | 45               | 45               |
| Capital assets (Note 4)   | <u>141</u>       | <u>168</u>       |
|   | \$ <u>59,059</u> | \$ <u>54,880</u> |
| <b><u>LIABILITIES</u></b>                                       |                  |                  |
| Accounts payable and accrued liabilities                        | \$ 736           | \$ 758           |
| Financial assistance payable (Note 8)                           | 17               | 251              |
| Accrual for financial assistance (Note 8)                       | 6,100            | 4,600            |
| Deferred revenue  | 342              | 345              |
| Amounts due to and investment in S C Financial Ltd.<br>(Note 5) | <u>4,274</u>     | <u>4,019</u>     |
|   | <u>11,469</u>    | <u>9,973</u>     |
| <b><u>EQUITY</u></b>  |                  |                  |
| Deposit Guarantee Fund  | 45,328           | 42,915           |
| Master Bond Fund  | <u>2,262</u>     | <u>1,992</u>     |
|   | <u>47,590</u>    | <u>44,907</u>    |
|   | \$ <u>59,059</u> | \$ <u>54,880</u> |

The accompanying notes and schedules are part of these financial statements.

# Statements of Income and Equity

For The Year Ended December 31, 1995 (in \$000's)

|   | 1995             | 1995             | 1994             |
|---|------------------|------------------|------------------|
|   | Budget           | Actual           | Actual           |
| <b>DEPOSIT GUARANTEE FUND</b>                             |                  |                  |                  |
| Revenue:  |                  |                  |                  |
| Interest  | \$ 2,547         | \$ 3,617         | \$ 2,731         |
| Deposit guarantee assessments                             | 6,847            | 7,313            | 8,739            |
| Prescribed assessments (Note 9)                           | -                | -                | 10,000           |
| Recovery of special assistance (Note 6)                   | <u>69</u>        | <u>88</u>        | <u>106</u>       |
|   | <u>9,463</u>     | <u>11,018</u>    | <u>21,576</u>    |
| Expense:  |                  |                  |                  |
| Interest and bank charges                                 | 23               | 33               | 23               |
| Provision for financial assistance (Note 8)               | 21               | 1,351            | 3,003            |
| Special contribution (Note 5)                             | 4,083            | 4,315            | 4,055            |
| Payment under guarantee to S C<br>Financial Ltd. (Note 9) | -                | -                | 7,781            |
| Administration (Schedule 1)                               | <u>3,358</u>     | <u>2,906</u>     | <u>3,523</u>     |
|   | <u>7,485</u>     | <u>8,605</u>     | <u>18,385</u>    |
| Net income for the year                                   | 1,978            | 2,413            | 3,191            |
| Equity at beginning of year                               | <u>43,204</u>    | <u>42,915</u>    | <u>39,724</u>    |
| Equity at end of year                                     | \$ <u>45,182</u> | \$ <u>45,328</u> | \$ <u>42,915</u> |
| <b>MASTER BOND FUND</b>                                   |                  |                  |                  |
| Revenue:  |                  |                  |                  |
| Assessments   | \$ 785           | \$ 798           | \$ 777           |
| Interest  | <u>130</u>       | <u>175</u>       | <u>129</u>       |
|   | <u>915</u>       | <u>973</u>       | <u>906</u>       |
| Expense:  |                  |                  |                  |
| Bond premium  | 521              | 525              | 564              |
| Administration  | 180              | 180              | 197              |
| Claims  | <u>180</u>       | <u>(2)</u>       | <u>85</u>        |
|   | <u>881</u>       | <u>703</u>       | <u>846</u>       |
| Net income for the year                                   | 34               | 270              | 60               |
| Equity at beginning of year                               | <u>1,969</u>     | <u>1,992</u>     | <u>1,932</u>     |
| Equity at end of year                                     | \$ <u>2,003</u>  | \$ <u>2,262</u>  | \$ <u>1,992</u>  |



# Statement of Changes in Financial Position

For the Year Ended December 31, 1995 (in \$000's)

|  | 1995           | 1995            | 1994            |
|--|----------------|-----------------|-----------------|
|  | Budget         | Actual          | Actual          |
| <b>OPERATING ACTIVITIES</b>                                    |                |                 |                 |
| Net income for the year:                                       |                |                 |                 |
| Deposit Guarantee Fund   | \$ 1,978       | \$ 2,413        | \$ 3,191        |
| Master Bond Fund   | 34             | 270             | 60              |
| Items not involving cash:                                      |                |                 |                 |
| Amortization   | 79             | 57              | 57              |
| Loss (gain) on disposal of capital assets                      | (1)            | 9               | (5)             |
| Amortization of deferred items                                 | <u>(209)</u>   | <u>(238)</u>    | <u>(262)</u>    |
|  | <u>1,881</u>   | <u>2,511</u>    | <u>3,041</u>    |
| Changes in non-cash balances relating to operating activities: |                |                 |                 |
| Accrual for financial assistance                               | -              | 1,500           | 3,097           |
| Loans and accrued interest, net of provisions                  | 435            | 228             | 235             |
| Due to S C Financial Ltd.:                                     |                |                 |                 |
| Special contribution   | 119            | 260             | 88              |
| Recovery of special assistance                                 | 18             | (5)             | 7               |
| Amount due from credit unions                                  | -              | (137)           | 439             |
| Payables and deferred revenue                                  | <u>101</u>     | <u>(21)</u>     | <u>409</u>      |
|  | <u>673</u>     | <u>1,825</u>    | <u>4,275</u>    |
| Operating investment activities:                               |                |                 |                 |
| Investment in marketable securities                            | <u>(2,459)</u> | <u>(2,954)</u>  | <u>(13,615)</u> |
| Cash provided by (used in) operating activities                | <u>95</u>      | <u>1,382</u>    | <u>(6,299)</u>  |
| <b>CAPITAL INVESTMENT ACTIVITIES</b>                           |                |                 |                 |
| Purchase of capital assets                                     | (95)           | (45)            | (51)            |
| Proceeds on disposal of capital assets                         | <u>-</u>       | <u>6</u>        | <u>17</u>       |
| Cash used in capital investment activities                     | <u>(95)</u>    | <u>(39)</u>     | <u>(34)</u>     |
| INCREASE (DECREASE) IN CASH                                    | -              | 1,343           | (6,333)         |
| CASH, BEGINNING OF YEAR  | <u>200</u>     | <u>223</u>      | <u>6,556</u>    |
| CASH, END OF YEAR  | \$ <u>200</u>  | \$ <u>1,566</u> | \$ <u>223</u>   |

# Notes to the Financial Statements

December 31, 1995

## Note 1 Nature of Operations

The Credit Union Deposit Guarantee Corporation (the Corporation), operating under the authority of the Credit Union Act, Chapter C-31.1, Statutes of Alberta, 1989, as amended, guarantees the repayment of all deposits with Alberta credit unions, including accrued interest. The Credit Union Act provides that the Province of Alberta (Province) will ensure that this obligation of the Corporation is carried out. As at December 31, 1995, credit unions in Alberta held deposits totalling \$3,936,000,000. Supervised credit unions receive assistance, support and direction in planning, policy and operational matters from the Corporation.

Under the Income Tax Act, the Corporation qualifies as a deposit insurance corporation and has no taxable income for the current year.

In 1986, S C Financial Ltd. was incorporated as a wholly owned company of the Corporation for the purpose of providing \$335,000,000 of deficit financing assistance to credit unions under supervision. Although the Corporation guarantees the interest on the S C Financial Ltd. debentures issued in exchange for Stabilization Preferred Shares of the credit unions, the interest is funded by the Province pursuant to its indemnification. Accordingly, other than the one time payment of \$7,781,000 agreed to in 1994 (see Note 9), the obligation of the Corporation pursuant to its guarantee is not reflected in these financial statements.

## Note 2 Summary of Significant Accounting Policies

### (a) Basis of Financial Statement Presentation

These financial statements reflect separate funds: a Deposit Guarantee Fund and a Master Bond Fund.

The Deposit Guarantee Fund enables the Corporation to guarantee the repayment of all deposits with credit unions, its primary objective. The Deposit Guarantee Fund's statement of income includes assessments received from credit unions, assistance payments recorded on behalf of credit unions, as well as all other revenues and expenses related to the primary objective.

The Master Bond Fund provides insurance coverage to credit unions under a policy administered by the Corporation. A credit union may claim a maximum of \$100,000 for directors liability claims and \$85,000 for other claims, less its deductible, which is payable out of the Master Bond Fund; a reinsurance policy insures the amount of the claim that exceeds \$100,000 or \$85,000, respectively. The Master Bond Fund's statement of income includes insurance assessments received from credit unions, interest income, premiums paid to the bonding company, administration fee, and claims.

The Corporation may use all of its assets to support its primary objective.

### (b) Non-consolidation of S C Financial Ltd.

The financial statements of the Corporation's wholly owned company, S C Financial Ltd., have not been consolidated with these financial statements since increases or decreases in the equity of S C Financial Ltd. do not accrue to the Corporation.

### (c) Investments

Investments are stated at cost, with any discount or premium amortized on the basis of the underlying yield to maturity. Carrying values of all investments are written down when there is a decline in value that is other than temporary.

### (d) Loans Receivable

Loans acquired to assist with mergers of credit unions are recorded at estimated net realizable value.



# Notes to the Financial Statements

December 31, 1995

## Note 2 Summary of Significant Accounting Policies (continued)

### (d) Loans Receivable continued

The loans are purchased from credit unions at the principal amount outstanding less an allowance for doubtful loans. Annually, management reviews the adequacy of the allowance for doubtful loans on a loan by loan basis and adjusts the allowance to an amount considered adequate to provide for expected loan losses.

Interest revenue is recorded on the accrual basis until the loan is classified as non-performing. At that time, any accrued interest is reversed. A non-performing loan is considered to be any loan where scheduled payments are greater than 60 days in arrears or less than 60 days in arrears and there is reasonable doubt as to the ultimate collectibility of the outstanding principal or interest.

### (e) Capital Assets

The following rates are designed to amortize the cost of capital assets over their estimated useful lives:

|                         |                               |
|-------------------------|-------------------------------|
| Furniture and equipment | 5 year straight-line          |
| Automotive              | 30% declining-balance         |
| Computer equipment      | 30% declining-balance         |
| Computer software       | 1 year straight-line          |
| Leasehold improvements  | straight-line over lease term |

Amortization begins in the month following the date of acquisition, using monthly rates.

### (f) Insurance Claims

The Corporation estimates and accrues the Master Bond Fund's share of losses from any reported claims. It makes an additional accrual of the estimated losses from unreported claims based on the last three years' average actual loss experience.

### (g) Provision for Financial Assistance

The Corporation recognizes financial assistance to specific credit unions as an expense when the need for assistance becomes likely and it can reasonably estimate the amount.

Additionally, an accrual for financial assistance is established by assessing the aggregate risk in the credit union system based on existing equity levels in individual credit unions, current market and economic conditions, the likelihood of losses and the application of historic loss experience. It reflects management's best estimate of the losses arising from the inherent risk in the credit union system. Future economic conditions are not predictable with certainty and actual losses will vary from management's estimate.

## Note 3 Investments

(in \$000's)

|   | 1995             | 1994             |
|---|------------------|------------------|
| Notes and term deposits issued by financial institutions  | \$ 9,406         | \$ 21,645        |
| Government of Canada treasury bills                       | 9,628            | 5,879            |
| Government of Canada bonds, coupons and residuals         | 25,075           | 22,937           |
| Provincial Government bonds, notes, coupons and residuals | 9,076            | -                |
| Shares of Credit Union Central Alberta Ltd.               | 100              | 100              |
| Shares of Co-operative Trust Company of Canada            | 198              | 198              |
|   | <u>\$ 53,483</u> | <u>\$ 50,759</u> |

The carrying value of the investments approximates market value.

## Note 4 Capital Assets

(in \$000's)

|                               | 1995   | 1994   |
|-------------------------------|--------|--------|
| Furniture and equipment       | \$ 408 | \$ 397 |
| Automotive                    | 23     | 48     |
| Computer equipment            | 257    | 332    |
| Computer software             | 26     | 24     |
| Leasehold improvements        | 63     | 67     |
|                               | 777    | 868    |
| Less accumulated amortization | 636    | 700    |
| Net book value                | \$ 141 | \$ 168 |

# Notes to the Financial Statements

December 31, 1995

## Note 5 Amounts Due to and Investment in S C Financial Ltd.

| (in \$000's)         | 1995            | 1994            |
|----------------------|-----------------|-----------------|
| S C Financial Ltd.   |                 |                 |
| Special contribution | \$ 4,315        | \$ 4,055        |
| Advances             | <u>(40)</u>     | <u>(35)</u>     |
|                      | 4,275           | 4,020           |
| Shares               | <u>(1)</u>      | <u>(1)</u>      |
|                      | \$ <u>4,274</u> | \$ <u>4,019</u> |

The Credit Union Restructuring Agreement requires the Corporation to make an annual special contribution equal to .11% of credit union deposits and borrowings to S C Financial Ltd., as directed by the Province, for the years 1990 through 2010.

## Note 6 Special Assistance to Credit Unions

In 1989, the Corporation paid deficit funding assistance to supervised credit unions totalling \$12,524,000. It may recover portions of this funding based on a percentage of the credit unions' annual net income. The credit unions repaid \$88,000 during the year and \$2,274,000 to date.

## Note 7 Commitment

The Corporation is committed to a non-cancellable operating lease for business premises totalling \$817,000. The following amounts represent minimum payments over the next five years:

|      |            |
|------|------------|
| 1996 | \$ 195,000 |
| 1997 | 151,000    |
| 1998 | 154,000    |
| 1999 | 157,000    |
| 2000 | 160,000    |

## Note 8 Provision for Financial Assistance

To fulfil the mandate described in Note 1, the Corporation assists credit unions experiencing financial difficulties when and as required. The Corporation monitors certain other credit unions experiencing financial difficulty and has a contingent responsibility to provide further financial assistance, the amount of which, if any, is undeterminable at this time.

| (in \$000's)                       | 1995                         |                                  |                 | 1994            |
|------------------------------------|------------------------------|----------------------------------|-----------------|-----------------|
|                                    | Financial Assistance Payable | Accrual for Financial Assistance | Total           | Total           |
| Balance, beginning of year         | \$ 251                       | \$ 4,600                         | \$ 4,851        | \$ 1,600        |
| Provision for loss                 | 39                           | 1,500                            | 1,539           | 3,332           |
| (Paid) during year                 | <u>(273)</u>                 | <u>-</u>                         | <u>(273)</u>    | <u>(81)</u>     |
| Balance, end of year               | \$ <u>17</u>                 | \$ <u>6,100</u>                  | \$ <u>6,117</u> | \$ <u>4,851</u> |
| Provision for loss                 | \$ 39                        | \$ 1,500                         | \$ 1,539        | \$ 3,332        |
| Recoveries                         | <u>(188)</u>                 | <u>-</u>                         | <u>(188)</u>    | <u>(329)</u>    |
| Provision for financial assistance | \$ <u>(149)</u>              | \$ <u>1,500</u>                  | \$ <u>1,351</u> | \$ <u>3,003</u> |

## Note 9 Prescribed Assessments

In 1994, pursuant to an Agreement between the Corporation, the Province, Credit Union Central Alberta Ltd. and S C Financial Ltd., the Corporation levied prescribed assessments totalling \$10,000,000 on credit unions. It paid \$7,781,000 of these funds to S C Financial Ltd in 1994 under its guarantee for debenture interest which reduced the Province's indemnity obligation on debenture interest.

## Note 10 1995 Budget

The 1995 budget was approved by the Board of Directors on September 29, 1994.

## Note 11 Comparative Figures

The 1994 figures have been restated where necessary to conform to 1995 presentation.

## Note 12 Approval of Financial Statements

The Board of Directors has approved these financial statements.



## *Schedule of Administration Expenses*

*For the Year Ended December 31, 1995 (in \$000's)*

|                                       | 1995<br>Budget  | 1995<br>Actual  | 1994<br>Actual  |
|---------------------------------------|-----------------|-----------------|-----------------|
| Deposit Guarantee Fund                |                 |                 |                 |
| Salaries and benefits (Schedule 2)    | \$ 2,346        | \$ 2,229        | \$ 2,797        |
| Rental charges                        | 276             | 270             | 253             |
| Board and committee fees (Schedule 2) | 174             | 115             | 148             |
| Board and committee expenses          | 23              | 14              | 16              |
| Staff travel                          | 312             | 167             | 205             |
| Office                                | 108             | 98              | 102             |
| Amortization                          | 79              | 57              | 57              |
| Professional fees                     | 55              | 41              | 46              |
| Data Processing                       | 33              | 23              | 31              |
| Other                                 | <u>132</u>      | <u>72</u>       | <u>65</u>       |
|                                       | 3,538           | 3,086           | 3,720           |
| Allocation to Master Bond Fund        | <u>(180)</u>    | <u>(180)</u>    | <u>(197)</u>    |
|                                       | \$ <u>3,358</u> | \$ <u>2,906</u> | \$ <u>3,523</u> |

# Schedule of Salaries and Benefits

For the Year Ended December 31, 1995 (in \$000's)

| Position or Group   | 1995                     |                     |                       |                 | 1994                     |                 |
|---|--------------------------|---------------------|-----------------------|-----------------|--------------------------|-----------------|
|   | Number of<br>Individuals | Salary <sup>1</sup> | Benefits <sup>2</sup> | Total           | Number of<br>Individuals | Total           |
| Chairman of the Corporation <sup>6</sup>  | 1                        | \$ 53               | \$ -                  | \$ 53           | 1                        | \$ 68           |
| Board Members <sup>6</sup>  | 6                        | 56                  | -                     | 56              | 6                        | 73              |
| G.S.T.  | —                        | 6                   | —                     | 6               | —                        | 7               |
| Total Fees  | <u>7</u>                 | \$ <u>115</u>       | \$ <u>—</u>           | \$ <u>115</u>   | <u>7</u>                 | \$ <u>148</u>   |
| Chief Executive Officer <sup>3</sup>  | 1                        | \$ 120              | \$ 13                 | \$ 133          | 1                        | \$ 134          |
| Senior management:  |                          |                     |                       |                 |                          |                 |
| Chief Financial Officer <sup>4</sup>  | 1                        | 84                  | 14                    | 98              | 1                        | 94              |
| Senior Manager, Operations  | 1                        | 64                  | 10                    | 74              | 1                        | 76              |
| Senior Manager, Credit  | 1                        | 70                  | 9                     | 79              | 1                        | 79              |
| Senior Manager, Credit  | 1                        | 70                  | 9                     | 79              | 1                        | 79              |
| Vice President, Credit  | -                        | -                   | -                     | -               | -                        | 47              |
| Vice President, Information Services  | -                        | -                   | -                     | -               | -                        | 40              |
| Other managers:<br>(Average 1995 \$68, 1994 \$68)   | 10                       | 595                 | 91                    | 686             | 11                       | 756             |
| Other full-time staff:<br>(Average 1995 \$40, 1994 \$40)  | 27                       | 919                 | 156                   | 1,075           | 27                       | 1,084           |
| Part-time and casual staff  | <u>2</u>                 | <u>50</u>           | <u>9</u>              | <u>59</u>       | <u>2</u>                 | <u>69</u>       |
|   | <u>44</u> <sup>7</sup>   | \$ <u>1,972</u>     | \$ <u>311</u>         | \$ <u>2,283</u> | <u>45</u> <sup>7</sup>   | \$ <u>2,458</u> |
| Termination benefits <sup>3</sup>   |                          |                     |                       | -               |                          | 231             |
| Accruals not specifically allocated net of deduction for total professional memberships,<br>automobile allowance and tuition included in benefits above |                          |                     |                       | <u>(54)</u>     |                          | <u>108</u>      |
| Total salaries and benefits expense   |                          |                     |                       | \$ <u>2,229</u> |                          | \$ <u>2,797</u> |

<sup>1</sup> In accordance with the directive of the Province of Alberta Treasury Board pursuant to the Financial Administration Act (Alberta). Salaries or fees include regular base pay and overtime or director fees.

<sup>2</sup> Benefits include contributions for Canada Pension Plan, Unemployment Insurance, Group Registered Retirement Savings Plan, Group Life Insurance, dental coverage, medical benefits, staff fund, automobile allowance, professional memberships and tuition.

<sup>3</sup> Automobile provided, no amount included in the benefits figure.

<sup>4</sup> For 1995, the benefits figure includes an automobile allowance which replaced the previously provided automobile.

<sup>5</sup> Termination benefits include retiring allowances, vacation payouts and other settlement costs due to elimination of three positions in 1994.

<sup>6</sup> The Chairman of the Corporation and Board Members are part-time positions. The Deputy Provincial Treasurer, Finance and Revenue, is a Board Member but received no remuneration from the Corporation.

<sup>7</sup> Represents full-time equivalent for the year.





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